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COUNTY OF ALPINE

**Management Report
For the Year Ended June 30, 2008**

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COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

Table of Contents

	<u>Page</u>
Introduction	1-2
Required Communication	3-6
Current Year Comments	
Year End Closing Procedures – Receivables	7-8
Transfers	8-9
Supervisor Approval of Timesheets	9-10
Recognition of Building Fees	10-11
Status of Prior Year Recommendations	12-13



GALLINA^{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members of the
Board of Supervisors of the County of Alpine
Markleeville, California

In planning and performing our audit of the financial statements of the County of Alpine as of and for the year ended June 30, 2008, we considered the County of Alpine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Alpine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County of Alpine's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. We consider the following deficiencies to be significant deficiencies or material weaknesses in internal controls as reported within the Schedule of Findings and Questioned Costs of the Single Audit report:

Finding 08-FS-1: Significant Deficiency: Preparation of the Schedule of Expenditures of Federal Awards

Finding 08-FS-2: Significant Deficiency: Classification of Trust Fund Accounts

Finding 08-FS-3: Significant Deficiency: Use of Accounting System

Finding 08-FS-4: Material Weakness: Processes to Identify Deferred Revenue Balances

To the Honorable Members of the
Board of Supervisors of the County of Alpine
Markleeville, California

Finding 08-FS-5: Significant Deficiency: Controls to Ensure Accuracy and Completeness of
Financial Statement Disclosures

We previously reported on the County's internal control in our report dated June 5, 2009. A separate report dated June 5, 2009, contains our report on the significant deficiencies and material weaknesses in the County's internal control and identified above. This letter does not affect our report dated June 5, 2009, on the financial statements of the County of Alpine.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters.

This report is intended for the use of management, the Board of Supervisors, the Grand Jury and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank the County's staff for its cooperation during our audit.

A handwritten signature in black ink, appearing to read "Gallina LLP", is written in a cursive, flowing style.

Roseville, California
June 5, 2009

COUNTY OF ALPINE

Management Report Required Communication For the Year Ended June 30, 2008

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Alpine (County) for the year ended June 30, 2008, and have issued our report thereon dated June 5, 2009. Professional standards require that we provide you with the following information related to our audit.

The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated June 5, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements represented by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 5, 2008.

COUNTY OF ALPINE

Management Report Required Communication For the Year Ended June 30, 2008

Significant Audit Findings

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Accrual and disclosure of compensated absences: Management's estimate is based on information collected in the County's payroll system using current pay rates and past experience on employee use of compensating time-off. Our audit agreed balances reported in the financial statements to those in the County's payroll system.
- Capital asset lives and depreciation expense: Management's estimate is based on past experience. We scanned depreciation listings for reasonable compliance to this approach.
- Allowance for uncollectible accounts: Management's estimate is based on past experience and subsequent collections. We inquired with management on the need for allowances.
- Claims liability: Management's estimate is derived from actuarial valuations obtained from experts. We confirmed the balance of the claims liability reported in the financial statements with third parties responsible for actuarial reports.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

COUNTY OF ALPINE

Management Report Required Communication For the Year Ended June 30, 2008

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The following summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

1. An adjustment to include capital assets purchased in prior years having a net book value of \$108,705, as of July 1, 2007.

The material misstatements noted below were detected as a result of audit procedures and were corrected by management. These adjustments, in our judgment, indicate matters that could have a significant effect on the County's financial reporting process:

1. An adjustment of \$382,739 to record the beginning balance of deferred revenues in the County's general fund.
2. Two adjustments to record additional accounts payable in the amount of \$106,475, that was not identified by the County during its closing process.
3. An adjustment to record taxes receivable, as of June 30, 2008, in the amount of \$393,784.
4. An adjustment to reduce current year revenues in the amount of \$260,244 for revenue that were not available and therefore, should have been deferred.
5. Correction to transfers of \$247,426 so that balances reported for transfers in agreed to balances reported for transfers out.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 5, 2009.

Consultations with Other Independent Auditors

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation

COUNTY OF ALPINE

Management Report Required Communication For the Year Ended June 30, 2008

involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

As noted in our report on the County's internal control, dated June 5, 2009, we consider the following deficiencies to be significant deficiencies or material weaknesses in internal controls as reported within the Schedule of Findings and Questioned Costs of the Single Audit report:

Finding 08-FS-1: Significant Deficiency: Preparation of the Schedule of Expenditures of Federal Awards

Finding 08-FS-2: Significant Deficiency: Classification of Trust Fund Accounts

Finding 08-FS-3: Significant Deficiency: Use of Accounting System

Finding 08-FS-4: Material Weakness: Processes to Identify Deferred Revenue Balances

Finding 08-FS-5: Significant Deficiency: Controls to Ensure Accuracy and Completeness of Financial Statement Disclosures

COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

YEAR END CLOSING PROCEDURES - RECEIVABLES

Criteria

State and local governments should maintain an accounting system that adequately provides all of the data needed to allow for the timely preparation of financial statements in conformity with generally accepted accounting principles. Financial statements prepared in accordance with generally accepted accounting principles should include all revenues pertaining to the reporting year and owed to the entity regardless of when the corresponding cash is collected. Likewise, all expenses owed by the entity should be included regardless of when the liability is paid.

A closing process that involves input from others and adheres to a well-documented process having assigned responsibilities and due dates results in accurate and complete account balances.

Condition

The County's financial system automatically captures revenues collected in a subsequent period provided the amount is deposited into the County's Treasury within 45 to 60 days after the end of the fiscal year. For revenues collected after this period, the Auditor-Controller's Office performs a review of all funds with deficit fund balances to identify potential receivables.

Cause

Deficit fund balance is not necessarily an accurate indicator of incomplete revenues and receivables. A fund may have a significant fund balance accumulated from years of activity yet still have an outstanding receivable. A fund may also have a deficit fund balance accumulated from years of activity yet have no outstanding receivable. The deficit may have been caused by overspending or unallowable grant expenditures.

Effect or Potential Effect

Revenues and receivable balances are incomplete resulting in an audit adjustment to the County's financial statements. Statement on Auditing Standards No. 112 requires the auditor to consider material audit adjustments as at least a significant deficiency and a strong indicator of a material weakness in internal control over financial reporting.

Recommendation

We recommend the County request County departments to provide the Auditor-Controller's Office with an estimate of outstanding receivables at the end of each fiscal year, along with appropriate documentation to support the existence of the receivables. Consideration should be giving to having departments submit receivable (and payable) information using a standardized form. Departments should be trained so that they well understand the accounting terms used and the nature of the information being requested. Due dates should be established, communicated and monitored.

COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

Management Response

The Auditor-Controller will implement standardized end of year closing procedures which will incorporate the SAS 112 accounts receivable requirements and meet with departments to train fiscal managers.

TRANSFERS

Criteria

GAAP define an interfund transfer as a flow of cash or other assets from one fund to another when there is no reciprocating flow of any item of value back to the fund originating the transfer and no liability is created for the receiving fund to repay the originating fund. In essence, a transfer constitutes a gift or subsidy from one fund to another. When such a transfer is recorded, the incoming transfer recorded in the receiving fund must be identical in amount to the outgoing transfer recorded in the paying fund. Both funds should be funds included in the County's reporting entity.

Condition

During our audit, we noted that amounts recorded to account number 38104, transfers in, did not agree to amounts recorded to account number 59500, transfers out. Reconciling items that we primarily noted were:

1. Transfers out totaling \$140,419 in the BT-Emergency Pre fund (fund 273) for salary costs incurred in another fund. The other fund should have recorded a transfer in or the BT-Emergency Pre fund should have recorded the transfer out as salary costs.
2. Transfers in totaling \$32,000 to the general fund from the public works' engineering trust, an agency fund. The general fund should have recognized this as revenue.
3. Transfers out totaling \$41,778 from the County's general fund to school-related funds. Schools are excluded from the County's reporting entity. Transfers out should have been reported as functional expenditures.

In prior year audits, we have noted that the total amount recorded as transfers in did not equal the total amount recorded as transfers out. In those years, reconciling items were far more numerous than the three identified above. This past fiscal year, the County Auditor-Controller's Office adopted an interfund policy that if executed correctly, ensures transfers reconcile to each other. The County's Auditor-Controller's Office has made significant improvements in correcting this situation.

Cause

The County's policy for recording transfers is either incomplete or not adhered to for all transactions. During the closing process, the County does not prepare a schedule of transfers showing the receiving and paying funds. This schedule should be agreed to amounts posted in accounts 38104 and 59500 and adjustments made if amounts do not agree.

COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

Recommendation

We recommend the Auditor-Controller prepare a schedule of transfers by listing the amounts, the receiving fund and the paying fund. During the closing process, this schedule should be agreed to amounts recorded to accounts 38104 and 59500.

Management Response

The Auditor-Controller has developed a schedule and monitored the 38104 and 59500 accounts to ensure the transfers are reconciled.

SUPERVISOR APPROVAL OF TIMESTUDIES

Criteria

The California County Welfare Department Cost Allocation Plan relies heavily on the accuracy of the time studies. The time study hours control the allocation of administrative costs to the various programs administered by County Social Services Departments. These time studies must be signed and certified by the employee as a "true and accurate report" of the employee's activity. As well, the supervisor must certify that the time study is, to the best of his knowledge, accurate and complete. *California-DBP-Manual-Fiscal* § 28-811.

Condition

Department of Social Services employees perform time studies during the middle month of each quarter, as required by the statewide California County Welfare Department Cost Allocation Plan (CWD CAP). The allocation of costs under the CWD CAP are based upon these time studies. We tested employee time studies and noted several that were not certified by a supervisor as required.

Effect of Condition

It is difficult for the County to comply with this requirement due to the small size of the Department. In most cases the only supervisor for the employees that are required to do time studies is the Director of the Health and Human Services Department. However, without a supervisor's certification of the time studies, the County is not compliant with this state regulation.

Recommendation

We recommend that employees' supervisors or, if necessary, the Director of the Department certify each time study. Alternatively, the Department might attempt to obtain a written waiver of this requirement from the state.

COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

Management Response

The County has had changes in the Director of Health and Human Services. The current supervisors and management staff are very attentive to the need to sign time studies. Staff is communicating with the State to determine if a written waiver of this requirement is available.

RECOGNITION OF BUILDING FEES

Criteria

California Government Code Sections 54985 and 60014 and Health and Safety Code Section 17951 require the County Board of Supervisors to set fees for plan review and building permits and inspections approximately equal to the costs of providing the services. Payment of fees is customarily required prior to the performance of any services. Fees paid may be partially refundable depending on the type of fee and the extent to which services have been rendered by the County, but developers forfeit their rights to fees after projects reach a certain critical point, even if the project is subsequently withdrawn. Fees collected in advance should be recognized as revenue at the time they are earned, either by performance of the associated services or by forfeiture of the fees by the developer.

Condition

During audit fieldwork, we performed on-site interviews at the Building Department. During the interviews, we learned that when a developer pays upfront fees for a significant building project, such as a condominium or large commercial project, the fees are deposited into a trust account managed by the Building Department. The Department's intent is to move funds out of the trust account and into the building fund as revenue when services are performed and revenue is earned. However, for one large project we examined during our review, we noted a significant delay between the date that revenue had been earned due to forfeiture of funds by a developer, and the date those funds were moved into the Building Department's revenue line. The delay gave the appearance that funds were incorrectly transferred to meet budget requirements. Upon further examination, it appears that the transfer of funds itself was appropriate, even though it should have occurred earlier at the time the revenue was earned.

Cause

The future of large projects is sometimes unpredictable, and developers withdraw and resubmit plans depending on changes in available financing and market requirements. The uncertainty created by this behavior sometimes raises questions regarding the timing of revenue recognition. Incentive also exists to average out spikes and declines in Building Department revenue over time.

COUNTY OF ALPINE

Management Report For the Year Ended June 30, 2008

Effect of Condition

Delays in revenue recognition could result in revenues for the Building Department that are misstated. This issue is discussed more generally in Finding 08-FS-4.

Recommendation

We recommend that the Building Department adopt a policy discussing the various types of revenue received and identifying the triggering events that result in revenue for the County being earned. Transfers from the Building Department trust funds would then be made at the times prescribed by policy when revenues are earned.

Management Response

Alpine County identified the practice as problematic and contacted Gallina for audit assistance. As part of budget reductions the building department was consolidated into the Community Development Agency with a new Director overseeing operation. The department is contracting with two entities to assist with the review and recommendations of modified policies and procedures, as well as a fee study review. Policy will be developed to ensure the appropriate processing of revenue.

COUNTY OF ALPINE

Status of Prior Year Recommendations As of June 30, 2008

<u>Recommendations</u>	<u>Status</u>
<u>Construction in Process</u> We recommend that the County establish written procedures to identify construction in progress as part of its year-end process. Furthermore, upon completion of the project, the amounts in construction in progress should be transferred to a building, improvement or infrastructure asset and depreciation should commence.	Implemented.
<u>Accounts Receivable</u> We recommend that the County consider additional steps in its year-end closing process to strengthen it in the future. Such steps might include requesting that County departments provide estimates of outstanding receivables at the end of each fiscal year, along with documentation that the County has earned the right to receive the revenue. In addition, the County should obtain updated property taxes receivable amounts at year end to include in its financial statements.	In Process. Comment repeated for emphasis.
<u>Transfers and Reimbursements</u> We recommend that the Auditor-Controller's office adopt a policy that entries to the incoming transfer account may only be made if a corresponding entry is also made to an outgoing transfer account. Currently, the County has designated one account number in its chart of accounts for transfers in (38104) and one account number for transfers out (59500). If the County wishes to organize its transfers into sub-categories, management may decide to create and designate additional accounts as incoming or outgoing transfer accounts. Whether or not the County elects to designate additional accounts, however, we recommend that an appropriate staff member balance the incoming and outgoing transfer accounts on a periodic basis so that any discrepancies can be quickly identified and corrected.	In Process. Comment repeated for further improvements.
<u>Trust Fund Accounting</u> We recommend that the Auditor-Controller's Office create new funds in its accounting system to account for the activity of governmental trust funds rather than accounting for all activity in a combined fund and then relaying data into spreadsheets. The Auditor-Controller's Office has made significant progress by closing out several of the governmental trust funds, but the balances of the remaining funds could result in material misstatements if not accounted for correctly.	Not Implemented.

COUNTY OF ALPINE

Status of Prior Year Recommendations
As of June 30, 2008

<u>Recommendations</u>	<u>Status</u>
<u>Single Audit Compliance Requirements Generally</u>	Implemented.

We recommend that the County implement procedures which require that on any federally-funded transaction, which equals or exceeds \$25,000 or for any amount with a subrecipient, that the County check to make sure that the other party to the transaction is not suspended or debarred. Lists of suspended and debarred parties are available online from the Excluded Parties List System at <<http://www.epls.gov>>.